WIFO
ÖSTERREICHISCHES INSTITUT
FÜR WIRTSCHAFTSFORSCHUNG

WORKING PAPERS

SHOULD HIGHER EDUCATION STUDENTS PAY TUITON FEES?

GUDRUN BIFFL, JOSEPH E. ISAAC

172/2001

SHOULD HIGHER EDUCATION STUDENTS PAY TUITON FEES?

GUDRUN BIFFL, JOSEPH E. ISAAC

WIFO Working Papers, No. 172
December 2001

E-mail address: Gudrun.Biffl@wifo.ac.at
2001/426/W/

SHOULD HIGHER EDUCATION STUDENTS PAY TUITION FEES?

GUDRUN BIFFL AND JOE ISAAC*

Abstract

In the face of rising numbers of higher education students and the political objective to continue to pursue the road towards universal university education, the issue of financing higher education is becoming a matter of public concern. The question of meaningful tuition fees to cover part of the cost of higher education needs to be addressed by many European countries where higher education is free or subject to comparatively low fees. This paper argues that such fees can be justified on efficiency and equity grounds and that 'equal access' does not mean free higher education. It examines this contention on the basis of several inter-related points – rates of return and security of employment; the disproportionate representation in higher education of those from the higher socio-economic groups; restriction on access for budgetary reasons; and evidence that tuition fees financed by loans repayable on an income contingent basis, in conjunction with financial support for the needy students, does not deter access nor render it less equitable. Further, the imposition of fees together with quality and efficiency controls of institutions of higher education may be expected to enhance efficiency by the spur to more effective teaching methods and restructuring of the system to a faster rate of graduation; while the method of collecting loan repayments should ensure minimal defaulters.

* Austrian Institute of Economic Research and Department of Management, University of Melbourne, respectively. This paper was presented at a workshop in the Austrian Institute of Economic Research in October 2001. We gratefully acknowledge our debt to the following for helpful advice: Nicholas Barr, Gerald Burke, Mike Long, Hans Vossensteyn, and Alan Wagner; but we are solely responsible for what appears in this paper.

Introduction

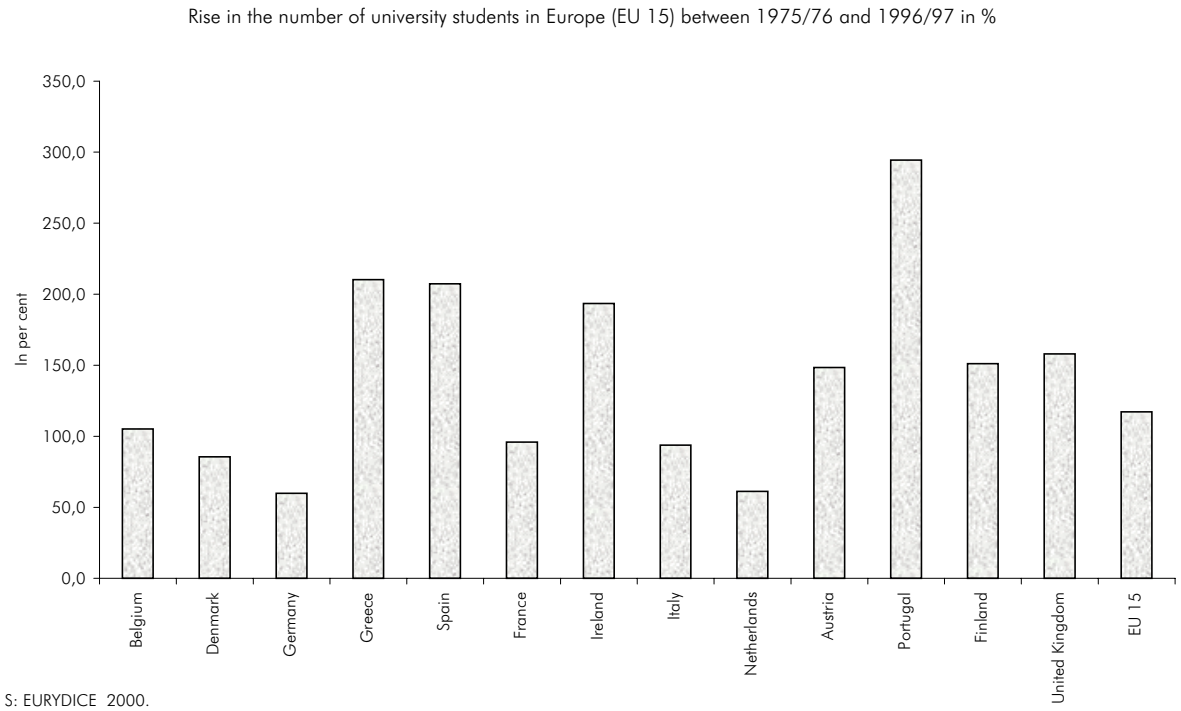
Governments in most countries face budgetary pressure from expenditure in competing programmes while being constrained politically from increasing taxes or incurring budget deficits. In the medium to long term, competition for public funds can be expected to increase in three major areas of public spending – health, welfare, and education. Health costs will rise as a result of population ageing. (*OECD,* 2000c) Welfare costs may be expected to increase as a result of industrial restructuring and non-traditional employment contracts on the one hand, and greater instability of families on the other. The changing nature of the two major components of the traditional social safety net, employers and the family, may call for more public financial support. (*Esping-Andersen,* 1990) Further, the continued increase in higher education participation, may be expected to add to the claims on public funds (*Trow,* M., 1996). In the circumstances of conflicting priorities and considerable growth in higher education (HE) enrolments (*OECD,* 1998b: Ch. 5), the question arises why HE should be either free or subject to minimal fees in many EU countries.

The university student population in the EU more than doubled between the mid 1970s and the mid 1990s. (Graph 1) The increase in the student population was particularly pronounced in Portugal, Greece, Spain, Ireland, the U.K. and Austria[1]. Starting from a relatively low base in the 1970s, these countries were driven by the requirements of knowledge-based economic growth under global competition to increase participation. While Spain, the U.K., Ireland, Iceland and Greece were successful in catching up with the OECD average share of university graduates in the younger population (25 to 34 year olds) by the end of the 1990s, Austria and Portugal continued to lag behind. (Graph 2) These countries, together with Italy, have the lowest share of university graduates in the 25 to 34 year old population in the EU (15).

The rise was particularly pronounced for women in their quest to draw even with men in educational attainment. In the mid-1970s, no EU member state had a majority of female students; by the end of the 1990s, the Nordic countries as well as France, Portugal, Spain, and Austria, the female share of the student population exceeded that of males. However, a number of countries continue to have a disproportionate number of men with higher educational attainment (Switzerland, Germany, U.K., Ireland, Luxembourg, Korea, Mexico, Turkey and the Czech Republic).

[1] Luxembourg does not provide full university study in its own country, as a result the major bulk of its student population is studying in another EU country.

Graph 1: Rise in the number of HE-Students in the EU (15) between 1975 and 1996



S: EURYDICE 2000.

It is not surprising that in the light of the increasing student population, public expenditure on tertiary education should have risen substantially. (Graph 3) Between 1990 and 1996 alone, public expenditure on tertiary education increased by about 30 percent to 1.3 percent of GDP for the OECD average. At the same time, private spending on HE is increasing in amount and scope (*OECD,* 1998a:58).

However, in many European countries, in addition to being free from tuition fees or being subject to comparatively low fees, HE students are assisted by varying combinations of grants, low-interest loans, tax breaks, subsidised services and family allowances. Outstanding among these countries are the Nordic countries, Germany and Greece. (*EC/Eurydice,* 2000).

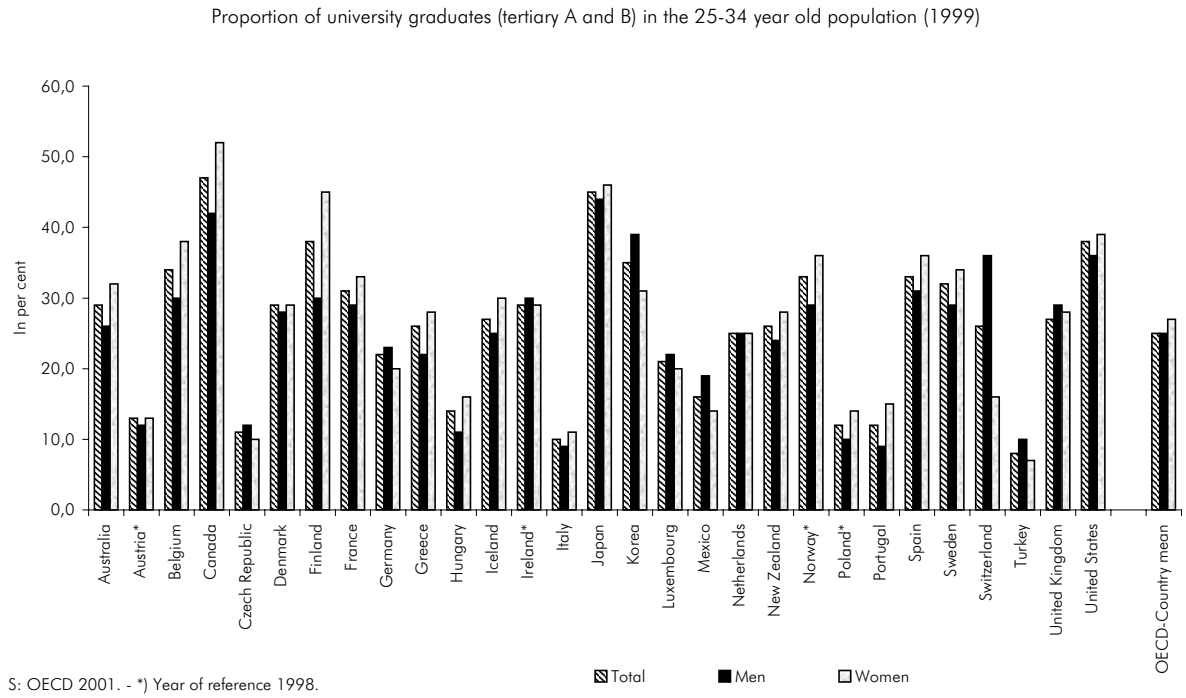
Some countries which impose comparatively low higher education tuition fees (for example, Belgium and Spain)[2], provide grants and support for fees as well as cash family benefits. The same may be said about Austria, where, as from 2001, an annual tuition fee of € 726 applies. In the case of the Netherlands[3], the tuition fee is more than offset by a basic grant without a means test.

[2] Tuition fees range from € 80 to 660 and 500 to 770 ppp per annum respectively.

[3] Although tuition fee (about € 1,300 in ppp terms, about half the Australian fee) is charged in the Netherlands, HE students are entitled to an annual basic grant, without a means test, which is almost twice the fee for those not living at home, and half the fee for those living at home (*Vossensteyn,* J.J., 1999). This grant is subject to a performance test of

Even those countries which charge comparatively high tuition fees (like the U.K. which charged € 1,705 per annum in the student year 2001/02), make them dependent on the parents income, thus effectively providing free university education to the poorer students who, in addition, are entitled to subsidised loans.

Graph 2: Proportion of university graduates in the 25 to 34 year old population (1999)



S: OECD 2001. - *) Year of reference 1998.

However, the financial generosity of many countries has not been matched by easy entrance requirements and/or efficient student throughput. This, in a sense, contradicts the avowed object of free HE. One or more restrictive elements, like limits on the number of available places, entry quotas, rigorous selection systems[4], queuing before entering (Nordic countries) and during study (particularly Austria)[5], are a feature of practically all institutions, and there are stringent progress requirements for support to continue. Some of these restrictions are aimed at not flooding the market with expensively trained persons (e.g., medical graduates); others arise because of

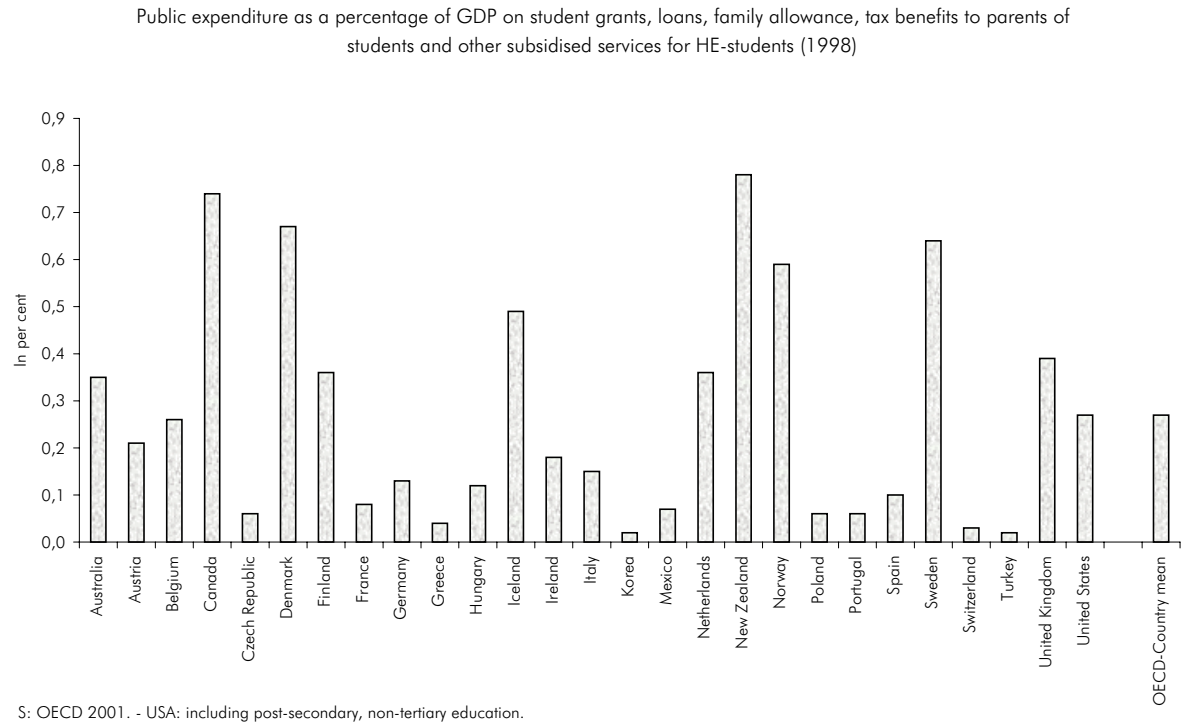
completing the degree within a specified time. Effectively, for those who satisfy the not-very-hard performance test, HE is tuition free. In Denmark, fees are charged to part-time students in the open university (*OECD,* 1998B:64).

[4] Selection may take the form of rigorous university entrance exams in the face of limited streaming of upper secondary education (the case of the Nordic countries), others introduce selectivity into the upper secondary education system, thus effectively preventing 50 percent or more of youth from taking the higher education path (Austria and Switzerland).

[5] It has even been said that in Austria, 'neither the government nor society in general considers further expansion of the student population to be desirable' (*EC/Eurydice,* 2000:167).

budgetary limits and, in some instances, a sense of elitism (Switzerland, Austria and the Central and Eastern European Countries). Most of the support mechanisms have been developed in the last 30 to 40 years, initially on the basis of merit but later extended more generously to encourage the participation in HE of the more disadvantaged groups (*EC/Eurydice,* 2000: Part II Ch. 1).

Graph 3: Public expenditure on financial assistance to tertiary education students and/ or their parents as a percentage of GDP (1998)



S: OECD 2001. - USA: including post-secondary, non-tertiary education.

It is interesting to note that an aspect of the cost of HE has surfaced in recent years particularly in those EU countries (e.g., Belgium and Austria) which have a substantial net inflow of HE students from other EU countries. As EU students are legally entitled to the same treatment in respect of fees as nationals, those EU member countries who are net receivers of EU students because of the popularity of their universities, are thus effectively subsidising the net sending countries. The effect of this requirement is to impose unequal HE costs on different countries, bearing in mind also that the social benefits of higher education may not accrue to the host country because most of the students may not be expected to return to their home countries. In these circumstances, the system of financial compensation to net contributors to higher education adopted by the Nordic region has attracted the attention of other EU countries. Under this system, every Nordic country pays for 75 percent of its students who study in another Nordic country, a lump sum of 2,657 € per student per annum into a common fund. This money does not go to the individual university institutions but

represents a form of compensation by the net sending country to the net receiving country for providing university places for students. (*Biffl et al,* 2001b)

Should tuition fees be charged?

The increasing cost of HE in conjunction with substantial restriction in one form or another on entry, raises the question of how HE should be funded. Different countries have taken different measures to deal with the growth of student numbers. In some, grants were partially replaced by loans; others grasped the nettle by charging tuition fees. Ireland, on the other hand, abolished tuition fees for full-time students in 1996/97[6]. The Nordic countries and a few other European countries, stand out in maintaining an 'egalitarian' approach to HE. Whether it is 'egalitarian' not to charge fees and thus not to distinguish between socio-economic advantaged and disadvantaged students in providing free HE, is a matter for argument. However, it seems that proposals for tuition fees have provoked strong reactions in France and Germany and that review teams in Scandinavia were told that "fees were neither wanted nor needed since public revenue sources and expenditure plans would suffice" (*OECD,* 1998b:32).

In the USA, Canada, Australia and New Zealand, on the other hand, tuition fees are well entrenched in the funding of HE, although their student support mechanisms differ. In the USA, households cover about 40 percent of the cost of tertiary education while in Korea and Japan, their contribution exceeded 50 percent, while Australia is fourth in the private contribution league with about one-third of the cost of HE covered by fees. (*OECD,* 1998b, Ch 4) This situation is also reflected in subsidy rates to tertiary education which is well over 90 percent for most EU countries, compared to just under 20 percent for Korea, 40 percent for Japan, about 50 percent for the USA, and about 70 percent for Australia[7].

The contrast in university funding between those countries and Europe is reflected in Table 1, showing a comparatively low proportion of tertiary education funding from private sources in Europe.

[6] For a detailed account see *Biffl et al.,* 2001.

[7] However, the particular feature of Australia and New Zealand is that students have the option of having their fees (covering on average about 25 percent of the cost of HE) met by government loans to be repaid later on an income contingent basis. This feature will be discussed in some detail below.

Table 1: Funding of tertiary education from public and private sources 1998

Expenditure from public and private sources on tertiary education institutions as a percentage of GDP (1998)			
	Public	Private	Total
Australia	1.09	0.51	1.59
Austria	1.44	0.02	1.46
Belgium	0.91	m	0.91
Canada	1.53	0.32	1.85
Czech Republic	0.76	0.12	0.88
Denmark	1.49	0.04	1.53
Finland	1.68	x	1.67
France	1.01	0.12	1.13
Germany	0.97	0.08	1.04
Greece	1.04	0.17	1.21
Hungary	0.80	0.21	1.01
Iceland	1.74	0.04	1.78
Ireland	1.08	0.30	1.38
Italy	0.68	0.16	0.84
Japan	0.43	0.60	1.02
Korea	0.44	2.07	2.51
Mexico	0.78	0.11	0.89
Netherlands	1.15	0.03	1.18
New Zealand	1.06	m	m
Norway	1.42	0.09	1.51
Poland	1.16	m	m
Portugal	0.96	0.08	1.04
Spain	0.84	0.27	1.11
Sweden	1.49	0.17	1.67
Switzerland	1.11	n	1.11
Turkey	0.81	0.03	0.84
United Kingdom	0.83	0.28	1.11
USA*	1.07	1.22	2.29
Country mean	1.06	0.29	1.33
OECD total	0.93	0.67	1.59
S: OECD 2001. - *post-secondary non-tertiary data included in tertiary education.m...missing; n...insignificantly different from zero; x...data included in another column.			

Leaving aside political considerations, this paper maintains that the case for free HE needs to be justified on equity and efficiency grounds. People generally have to pay for acquiring goods and services in most forms; *prima facie* there is no case, on efficiency grounds, for excluding the acquisition of higher education and the additional human capital it provides to the students

concerned, from any private contribution. It is also arguable that the payment of a fee would induce students to demand and to draw a better quality service from universities and to give students greater incentive to try and complete their courses quickly. (*OECD,* 1998c). Of course, students do pay in good part for the education they acquire by the income they forego while studying rather than being in paid employment; and many need support from their families. But the problem of payment goes beyond this. There remains the question of how government expenditure on HE is to be met. What is so special about HE that the community should pay for it *in toto* by taxation? Is such a system of funding HE likely to be equitable?

In a number of European countries, the justification for free HE is found in the principle of 'equal access' to HE, the term sometimes being understood as 'the determination to ensure that financial barriers do not prevent students with satisfactory intellectual ability from entering higher education'. (*EC/Eurydice,* 2000:1) It seems that countries in favour of free education, in addition to various financial support schemes, are concerned that 'the principle of equal access – or even of balanced social representation in higher education enrolment – should be upheld.'(*EC/Eurydice,* 2000:20) It is questionable whether 'equal access' necessarily produces 'balanced social representation', as will be seen later.

Several inter-related questions arise from these statements in conjunction with the case for tuition fees. First, what benefits do those with HE enjoy over and above those with lesser qualifications? Second, what is the existing socio-economic (SE) representation among HE students? Third, is access to HE institutions for qualified students unimpaired by restrictions such as queues, quotas and the like? Fourth, would fees create a significant financial barrier to HE for academically qualified students? Fifth, should interest be charged on loans? Sixth, how should loan repayments be collected? Finally, in the circumstances of the foregoing, is there a case for free HE on equity and efficiency grounds?

This paper will draw heavily on Australian experience of over ten years with its Higher Education Contribution Scheme (HECS) to deal with these questions.

The added benefits of HE

Government expenditure on higher education generates private benefits and benefits to society at large. Apart from the direct personal satisfaction contributed by HE, private benefits also accrue to graduates in the form of human capital[8], which generally allows them to enjoy a larger income stream during their working lives as well as greater employment security than those without such capital[9].

Conventionally, the income stream following graduation is measured in terms of annual rates of return. An OECD estimate for 1995 and 1999 (*OECD,* 1998d: Table A4.3, Blöndal – Girouard, in *OECD,* 2001: Tables 2.2, 2.3), puts the average male private rate of return for a number of OECD countries at around 12 percent, varying between 7.5 percent for Japan and 17 percent for the U.K.; the figures for women were slightly lower on average[10]. Compared to upper secondary education, social rates of return to tertiary education (*Blöndal – Girouard,* 2001), which are affected by the extent of private contribution to tertiary education, ranged between 6.5 percent for men in Germany and Japan, and 13.7 percent in USA; in the case of women, Denmark was at the lower end of the scale of social rates of return with 4.2 percent, while France and U.K. were at the upper end of rates of return with more than 13 percent.

U.K. figures submitted to the *Dearing Committee* (1998), showed that the private rates of return from HE, on average for the period 1989 to 1995, for men of all ages varied between 9 percent and 11 percent, while for 18 year olds, it varied from 11 to 13 percent. (James *Steel* and Colin *Sausman,* 1997)[11]. Social rates are shown to be lower because tuition fees were heavily subsidised in the period examined, suggesting that fees may tilt the balance in favour of higher social returns.

Similar calculations for Austria in the mid 1990s show that private rates of return to university education over the life cycle are around 12 percent and thus amongst the highest in Europe. This may partly be a result of the relative shortage of university graduates in the Austrian working population. Limited recognition of university degrees of other countries and the predominant role of

---

[8] Adam *Smith* (1776) was probably first to draw the analogy between physical capital and human capital, the latter being 'a capital fixed and realised, as it were, in the person and acquired by 'education, study or apprenticeship'.

[9] Mark *Harrison* (1995:22), has argued against the 'benefit principle' on the grounds that the cost of HE should be paid regardless of whether any benefit is obtained by the student. This somewhat puristic argument ignores the point that if HE is not expected to provide benefits in the form of higher income or some consumption benefit, no rational student would undertake HE. The government would have to subsidise students handsomely in order that external economies may accrue to the community at large.

[10] Calculations of rates of return are somewhat problematical depending on the assumptions made, and the precise figures should be taken with reservation. Even greater reservation attaches to the measurement of social rates of return because the valuation of externalities is highly subjective.

[11] The private rates for women were somewhat higher (from 14 to 20 percent) because non-graduate women earned substantially below males and are over-represented by part-timers.

the public sector as an employer of university graduates, reduces immigration as a means of reducing the privileged position of university graduates in Austria. The comparatively small difference between private and social rates of return may be attributed to the relatively high public cost of tertiary education (*Fersterer – Winter-Ebmer,* 1999a/b, 2001).

Based on 1997 data, a recent Australian study (*Borland, J. et al*., 2000) estimates the private rate of return to a bachelor degree at 15 percent per annum. The social rate of return was somewhat higher because of the comparatively high tuition fees.

The benefits of HE also extend to the lower incidence of unemployment. For those with HE, the unemployment rate in 1998 of most OECD countries (*OECD,* 2000b:27) was half the rate of those with only secondary education and post-secondary non-tertiary qualifications. Moreover, the duration of unemployment for the former was also much shorter.

It should be noted that the link between education and the returns from it, is a matter of controversy, centred on the distinction between acquired and endowed ability (*Blaug,* M. 1988, *Card,* D. 1999). The question at issue is whether education largely adds to the person's ability or whether it simply performs the function of 'filtering' endowed ability and attaching credential labels to the persons who have gone through the education mill. We adopt the view advanced by Maureen *Woodall* (1987), to the effect that both forces are at work.

For our purposes the precise figures of rates of return from HE are not critical to the general argument on the question of fees. It is sufficient that higher education affects earnings and employment security positively. Table 2 provides a relatively good overview of the international earnings differentials for those with HE; but it should be noted that earnings differentials, particularly at the lower end, are affected by institutional factors and social policy, while at the HE-level market forces play a larger role.

In addition to financial rewards, HE also confers a 'consumption' element in the sense that learning and the cultural benefits flowing from it, is a source of satisfaction in itself. Thus, both as a source of investment and consumption, HE can be expected to add to the wellbeing of graduates. On this ground alone, it is arguable that, *prima facie,* HE students should be required to contribute to the cost of HE by way of tuition fees. But additional considerations provide an even stronger case for the payment of fees, because, in addition to efficiency, equity should also feature in HE policy.

Table 2: Relative earnings by highest educational attainment level (1997)

Relative earnings of the 25-64-year old by highest educational attainment level (1997)				
ISCED 3/4 = 100				
		Below upper secondary education	Tertiary education (Type B)	Tertiary education (Type A) and other HE
		ISCED 0/1/2	ISCED 5B	ISCED 5A/6
		Ages 25-64	Ages 25-64	Ages 25-64
Australia	Men	87	120	144
	Women	85	113	154
	M + W	79	103	136
Denmark	Men	86	124	139
	Women	88	119	136
	M + W	85	115	140
Finland*	Men	95	129	189
	Women	101	123	179
	M + W	97	121	186
France**	Men	88	130	176
	Women	80	132	161
	M + W	84	126	169
Germany	Men	88	106	156
	Women	87	111	156
	M + W	81	108	163
Austria***	Men	78	x(5A/6)	128
	Women	74	x(5A/6)	132
	M + W	78	x(5A/6)	139
Netherlands*	Men	87	x(5A/6)	136
	Women	75	x(5A/6)	141
	M + W	84	x(5A/6)	137
Norway	Men	85	x(5A/6)	138
	Women	84	x(5A/6)	140
	M + W	85	x(5A/6)	138
Sweden	Men	88	x(5A/6)	135
	Women	89	x(5A/6)	125
	M + W	90	x(5A/6)	129
Switzerland**	Men	81	119	145
	Women	74	123	157
	M + W	74	137	162
United Kingdom	Men	73	125	157
	Women	64	135	188
	M + W	64	125	168
USA **	Men	69	113	183
	Women	62	127	180
	M + W	70	116	184
S: OECD 2000a. - *1996, **1998, ***WIFO-calculations based on the LFS.				

The socio-economic composition of HE students

An OECD study found that 'there is a disproportionately small participation by lower socio-economic groups in all countries'. (1998E:32) A more recent study concluded that the expansion of tertiary education appears to have had little impact on the relative participation of young people from less advantaged backgrounds (*OECD,* 2001:26).

This conclusion can be supported by the evidence in various country studies. For the U.K., the National Committee of Inquiry into Higher Education (1997), referred to as the Dearing Committee after its Chairman, noted that despite the increase in participation by the lower SE groups in the substantial overall growth in HE in recent years, these groups, despite the support of maintenance grants, had not kept pace with the upper groups by a substantial margin.

Various Australian studies also show the disproportionate representation of those with higher SES backgrounds in HE. Further, as in the U.K., although low SES students have grown in numbers with the expansion of HE intake, relatively, the socio-economic structure of HE students has not changed much over the years. This, despite the additional assistance available to them. One of the earliest Australian studies (*Anderson – Vervoorn,* 1983:147) concluded that, in terms of fathers' occupation and income and parents' level of education, HE students tend strongly and persistently to be concentrated at the upper end of the social spectrum.

Subsequent Australian studies have largely confirmed this conclusion.

A more recent detailed longitudinal study (*Long,* M., *Carpenter,* P., and *Hayden,* M., 1999) for the period 1980 to 1994, involving four cohorts, examines HE participation[12] in terms of parents' occupation, educational attainment and family wealth[13]. These three elements are likely to be inter-correlated and each shows a significant positive association with HE participation; but parents' occupation and educational attainment stand out as the more important factors[14]. Furthermore, the impact of the three elements on participation has remained largely unchanged over the period[15].

Another study (*Skuja,* 1995), deriving the social status index from a composite measure of occupation and education, found, for the first half of the 1990s, that students from low SE backgrounds, recorded the lowest HE access rates, with participation rates of around 60 percent of their proportionate share[16]. On the other hand, for sub-degree courses, the figure was close to

---

[12] Year 12 completions, entry into HE of Year 12 students, TAFE (excluding apprentices) participation, and apprenticeship participation are also examined.

[13] Wherever possible the other's educational attainment is taken to represent the parent; a wealth is based on information about housing and household characteristics, consumer durables, etc..

[14] This is underlined by a more recent study (*Marks et al,* 2000:28-30).

[15] However, differences in such factors as school performance, public or private school attendance, family expectations, influence of teachers and peer groups, and the cultural milieu, also play a part in participation.

[16] This was similar to the proportion for Indigenous and geographically isolated students.

100 percent. Interestingly, once into HE, the retention and success rates were almost 100 percent[17].

A Danish longitudinal study of a 1968 cohort aged 14, found that by age 38, students with working class backgrounds were under-represented in both short and long-cycle tertiary courses, but especially in the latter (*Hansen,* E.J., 1996, quoted in *OECD,* 1998c:85). The persistent under-representation of SE disadvantaged students has occurred despite generous financial support and substantial investment by the government in HE (*EC/Eurydice,* 2000:198).

Similar results are evident in an analysis[18] of the Austrian student population. (Table 3) The SE status of newly enrolled students is strongly biased in favour of children whose fathers are in the 'free professions' (medical doctors, pharmacists, architects, lawyers, consultants, etc.), civil servants and white collar workers; while children of blue collar fathers are grossly under-represented in the student population. Over the period, the children of non-farming fathers who are working on their own account or who are in the 'free professions', is consistently double the share of these professions in total employment. On the other hand, children of farmers have improved their position; while they were somewhat underrepresented in the student population in the 1980s, they were over-represented towards the end of the 1990s. This was not the result of rising absolute numbers of students with farming background, but rather a consequence of the rapid decline of the number of farmers in the total work force. The group which has persistently been heavily under-represented in the student population, are children of manual workers. Even though their number in new enrolments has increased somewhat over the last twenty years, they continue to be 70 percentage points short of their proportionate share.

An international study of cohorts from the early 1900s to the 1960s, covering thirteen countries including a number of West European countries[19], concludes that, generally, despite the great expansion in education and, in many cases, reform of educational institutions, the effect of social origin in the transition to tertiary education has remained virtually unchanged (*Blossfield – Shavit,* 1993:18). However, although still heavily under-represented, there are signs of improved representation of this group in Ireland, Sweden and the Netherlands (*EC/Eurydice,* 2000:198).

In certain countries, notably Germany, Austria and Switzerland much of the growth of participation in secondary education has flowed into the vocational rather than the academic stream, the former providing a more attractive path with a more rapid acquisition of skills for those from the lower SE groups.

---

[17] This study also found that high SES students were over-represented (by 60 percent) in the more prestigious areas of study like medicine, dentistry and law; while intermediate SE students were slightly (by 10 percent) under-represented and those from low SES were substantially (by 60 percent) under-represented in these areas. The differences are even more pronounced when participation in postgraduate degrees is analysed.

[18] Undertaken by Gudrun Biffl, as yet unpublished.

[19] Germany, the Netherlands, Sweden, Great Britain, Italy and Switzerland.

Table 3: Socio-economic status of newly enrolled students, as represented by their fathers' occupation, in Austria.

Ratio of the socio-economic status of the newly enrolled students to the work force									
if the coefficient = 1 then the share of the SE group in the student population corresponds to the share in employment									
if the coefficient < 1 then the SE group is underrepresented in the student population relative to the employed									
if the coefficient > 1 then the SE group is overrepresented in the student population relative to the employed									
	Total	Men	Women	Total	Men	Women	Total	Men	Women
	1997/98			1988/89			1981/82		
Self-employed									
non-farming	2.3	2.3	2.4	2.1	2.0	2.3	2.3	2.2	2.3
farming	1.2	1.1	1.2	0.8	0.7	0.8	0.9	0.9	0.9
wage and salary earners, civil servants									
salary earner	1.5	1.5	1.4	1.6	1.6	1.6	1.6	1.6	1.7
wage earners	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
S: University Statistics, Statistics Austria.									

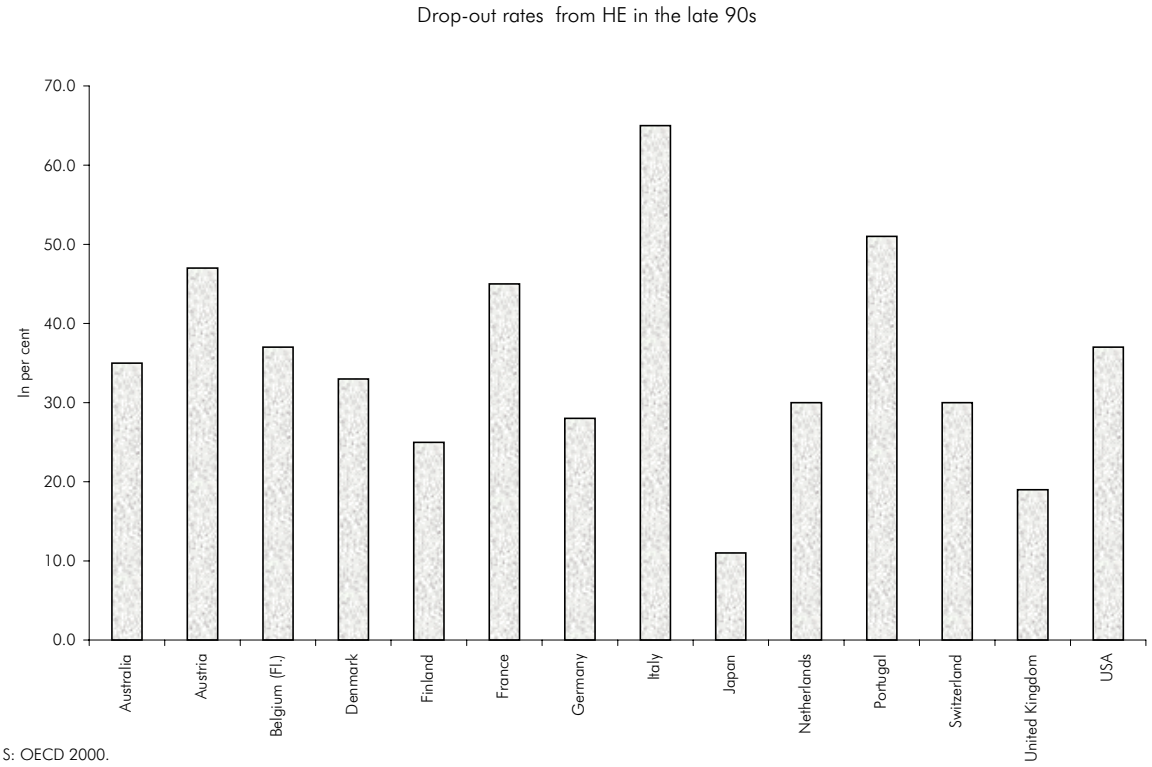
However, the point we wish to stress is that the under-representation of the low SE groups in HE does not provide an argument for free HE. Free education ensures 'equal access' to the high and low SE groups but not, on the evidence, 'balanced social representation', to use the Eurydice term, nor an equitable situation. It is regressive because it subsidises those from the higher SE groups with the potential to be high income earners, at the expense of all taxpayers including low income earners. Unless the government is in the uniquely fortunate position of being free of budgetary constraints, the fact that the higher SE groups are over-represented in HE provides a strong equity case for charging tuition fees. Such fees would provide the basis for greater assistance to the less advantaged students, attending to the community's welfare needs or meeting other more equitable priorities than subsidising those in high SE groups. Furthermore, fees would also provide the means for expanding the number of university places, where there are bottlenecks.

Are there bottlenecks and other impediments to the intake of more HE students?

The case for free HE is greatly weakened when a high degree of selectivity and exclusion is applied to students who have the necessary qualifications to be admitted because the number of places are inadequate to meet the demand. The limited capacity of various programmes arising from limited budgets largely accounts for the degree of selectivity. In these circumstances, students are turned away or are kept on waiting lists, as in Germany and Denmark. Some 50 percent and 37 percent of qualified applicants are not admitted in Finland and Sweden respectively, while the rejection rate for Denmark is about 30 percent. These are countries which do not charge tuition fees (*Vossensteyn,* 1997:11). Other countries, like Austria and Switzerland, have a strong vocational orientation of upper secondary education which effectively channels more than half of the youth population into the labour market without an option to continue with HE. Here screening does not take place at the entry port into the university system, but is systemic in upper secondary education streaming. In spite of that, student numbers outpace the capacity of HE institutions in Austria. As a

result, queuing is a common feature in the first half of the normal study period in many HE programmes. This arises from the fact that although there is free access to universities of pupils with a baccalaureate, there is no proper central organisation to communicate to intending students on the available places in various Austrian universities and disciplines. This factor contributes to a prolongation of study beyond the required duration. Slow study progress entails a loss of public financial assistance to the student; which is one reason for the rising share of students who regularly work in the labour market to cover their living expenses[20]. In addition, severe screening in the early semesters contributes to one of the highest drop-out rates from HE. The almost exclusive provision of long duration university courses in Austria and in many other European countries is another factor which makes HE rather expensive, in terms of opportunity cost, for students from low income families[21].

Graph 4: International comparison of drop-out-rates from HE



S: OECD 2000.

[20] According to the Labour Force Survey (LFS), about 50 percent of Austrian students were working regularly in the labour market in the second half of the 1990s, about 10 percentage points more than ten years ago.

[21] It has been pointed out that, in general, countries with long tertiary-type A programmes, tend to have the relatively highest drop-out rates. It is also noted that although the HE entry rate in Austria is below the OECD average, it has one of the highest drop-out rates (*OECD,* 2000a:162).

Would fees create a significant financial barrier to HE for academically qualified students?

Intuitively, it would seem that tuition fees, in addition to the burden of forgone earnings from employment, would result in a reduction in demand for HE, especially from those in the lower SE groups. But evidence of USA (*Andrews,* 1999:10, *McPherson,* M. and *Schapiro,* M.O., 1991) and the Netherlands (*Vossensteyn,* 2000:8,9)[22] experience, suggests that demand for HE is rather inelastic for those in the higher SE groups and rather more responsive to cost changes for those from lower socio-economic backgrounds. However, there are several points to be considered in this connection before the case for fees can be sustained.

First, should the full cost of HE be charged in fees? As mentioned earlier, there are social as well as private benefits from HE. Apart from such benefits as better health, greater social cohesion, more informed citizens (*OECD,* 2001), the social benefits arise from the fact that a larger pool of skills can promote and harness technological developments to facilitate higher productivity and economic growth. Accordingly, only part of the cost of HE should be borne by students, the other part being drawn from the public purse. How are the costs to be allocated between them?

While some idea may be obtained from calculations of social rates of return on HE, ultimately it is an arbitrary basis for allocating costs because social benefits and spill-over effects are difficult to quantify. The proportion of the cost of HE covered by student fees in the countries which are in the top league, has been noted earlier; and the varying percentages of GDP drawn from private sources are shown in Table 1. The test ultimately is a matter of social judgement, based in part on whether a particular percentage results in an undue reduction in HE intake.

Second, there should be provision for financial support based on a means test to ensure that particularly those from lower SE backgrounds are not discouraged by financial considerations from accessing HE, especially, as their demand may be more responsive to cost changes. The manner and amount of such support will differ from one country to another – whether the means test is based on family means rather than that of the individual student, and at what age the student is considered to be a separate entity from the family; whether support takes the form of a family allowance or a tax break for the family; whether it is in form of a grant or loan; whether it is intended to cover only tuition fees or also part of living costs; whether there are performance tests for the support system to continue. Some countries favour a support system based on family responsibility (Austria, Germany, Switzerland, France, Belgium, U.K., the Czech Republic and Southern European countries except Greece; others, on the financial independence of the student (Nordic countries, the Netherlands, Ireland, Iceland). (*Eurydice,* 1999:11 and *Biffl et al.,* 2001a.)

[22] However, this result needs to be qualified by the fact that all students are entitled to a basic grant which may be said to largely offset the fee.

The low participation of those in the low SE groups, especially those with family obligations even under a free education regime[23], arises not only for financial reasons, but also for cultural reasons. The financial factor may be dealt equitably by grants based on a means test. The cultural factor is equally important but is more difficult to remedy, at least in the short term. This has been alluded to in studies of many countries (*Blossfield,* H.P., and *Shavit,* Y., 1993; *U.K.* National Committee of Inquiry into Higher Education, 1997; *Long,* M. *et al,* 1999).

The Dearing Committee noted that many factors underlie the under-representation of the lower socio-economic groups – they include 'cultural deficit' explanations involving lack of family and peer group expectations, HE being a 'culturally alien terrain'; as well as inequality in the distribution of wealth, type of school attended, and individuals' shortcomings in educational qualifications to progress into HE as well as their lack of confidence. For the lower SE groups, HE 'remains an unusual occurrence', whereas for those from the higher SE groups, participation in HE is 'routine'. A U.K. study submitted to the Dearing Committee (*Robertson – Hillman,* 1997:3.13) aptly summed it up this way:

> Students from lower socio-economic groups appear to be guided from an early age, by reason of habit, culture and professional or peer expectation, to anticipate entry into the labour market rather than higher education.

What the appropriate strategies in detail for dealing with the under-representation of the low SE groups in HE are, is outside the scope of this paper. It is sufficient to note that the underlying factors of the under-representation suggest that the remedy lies in increasing financial support for students from such groups and in dealing with the more complex cultural factors early in the educational lives, including better communications about the benefits of HE. All this will take time. Those with ability and strong motivation will no doubt transcend the cultural barriers. It may be that the rising trend in post-school education participation and training by these groups will reduce the force of cultural factors, although one school of thought is less sanguine about such a prospect[24].

Whatever the form of support, there are bound to be arguments about the adequacy of the support system. However, potentially, tuition fees provide added budgetary flexibility for greater financial support of disadvantaged groups for post as well pre-secondary education where the psychological barrier to HE begins[25].

---

[23] .A feature of the lower SE groups with qualifications to access HE who are generally older.

[24] The *modernisation* theory predicts a reduction in education inequality over time while the *reproduction* theory expects an unchanged or even increasing inequality (*Blossfied,* H.-P., Shavit, J., 1993:8).

[25] It is estimated that in Australia, about one-third of HE students are covered by various assistance schemes. (Report of the Senate, 2001:284) This compares with the figure of 14 percent of the students in Austria who receive a grant, basically for having a low family income. In conjunction with HECS, financial assistance towards living costs is provided on a parental means test basis to students up to the age of 25 (Youth Allowance), and on personal means test for those over (Austudy Payment). There is also special assistance to aboriginal students (ABSTUDY). These various assistance payments may be converted into income contingent loans up to a certain annual limit. Those entitled to these forms of

Third, should fees vary between disciplines? If the user pays principle is applied consistently, there should be differentiation on the basis of cost. In the U.K. and, initially, in Australia when HECS came into being in 1989, a standard fee was applied. This gives students in the more expensive courses a differential subsidy, which may well have encouraged more students to do these courses. In 1996, changes were made to HECS, including instituting three categories of fees, all on a higher level than the previous standard fee. Differentiation was partly on the basis of costs and, in the case of law, on the basis of income prospects of lawyers, raising it to the highest fee category, although it had the lowest cost among the disciplines[26].

Moreover, the basis of cost allocation as between the different disciplines is somewhat arbitrary. The proportion of costs covered by HECS varies widely – from a low of 30 percent for medicine to about 48 percent for Arts, Humanities, and a high of 80 percent for Law (*Karmel,* T., 1999:14).

The rationale for differentiation should be properly articulated and justified, a point on which the present HECS in Australia is deficient. Some may argue that relative fees should be used as a method of influencing the relative supply of skills, fees being loaded in order to discourage entry into particular areas which are oversupplied, and the opposite for areas of chronic skill shortage. Alternatively, the extent of subsidy to particular courses should be related to considerations of externalities, lower fees being charged where the spill-over effects are large (*King,* 2001:192). There are problems in striking the right balance of fees in this kind of labour supply planning, whatever the rationale. Student response is not only related to the size of fees – interest in the area of study, employment prospects may be more important factors. (*Andrews,* 1997:16) It is noteworthy that, where there is a tendency for a large oversupply of certain high cost skills to develop, a quota system is used, as in medicine, dentistry and veterinary science, as an alternative to higher fees. It is arguable that, at least in the case of Australia, the HECS for these disciplines should be higher in order to reduce the pressure on quotas.

Fourth, when should the fees be paid? This is a critical question in the case for charging fees while minimising the financial impediment to HE. Some students[27] may no doubt be able to pay the fees upfront on an annual basis. But for many this would create undue hardship and would

---

assistance may trade-in part or the whole of their assistance for double the amount in the form of income contingent loans up to a maximum of $ 7000 a year, repayable on the same terms as HECS. Those not in receipt of such support are entitled to such a loan up to a limit of $ 2000 a year subject to a means test.

[26] The current HECS annual fees are: Category 1, $ 3521; category 2, $ 5015; category 3, $ 5870. Upfront fees are 75 percent of these figures. It could fairly be argued that the system of progressive taxation should look after the higher incomes of lawyers; and as there is wide dispersion of income among law graduates, lawyers at the lower end of the pay scale are unduly penalised by the formula adopted. The differential fee structure does not appear to have had much effect in stemming enrolment in the more expensive courses, but overall there has been a small (5 to 7 percent) decline in numbers of mature age students, although this may be more related to the low income threshold at which repayment commences (*Report of Senate,* 2001:281).

[27] In Australia, about 30 percent currently, but the percentage has been declining with the increase in HECS (Report of the Senate, 2001:277).

discourage the demand for HE. The purchase of capital goods like a house or a car which involve a large immediate outlay, with returns spread over a long period in the future, is commonly financed by loans from bank and other financial intermediaries. But banks and other lending institutions are not generally in the business of advancing loans for investment in human capital except on government guarantee, because such skills are not transferable and may not eventuate. The absence of a collateral to cover against default and the uncertainty of outcome in such investment, deters the market from providing loans except perhaps at exorbitant rates. In other words, the market for student loans is imperfect.

Therefore, in the circumstances, apart from equity considerations, in order to ensure access to higher education for those – probably a sizeable proportion – who would be unable to find the means to pay from private sources, government intervention either to guarantee such loans (as in the USA and Finland) or to provide the loans directly (as in the U.K., Sweden, Denmark and the Netherlands), is justified in order to prevent under-investment in HE. HECS in Australia is a government loan to students to cover fees without a means test.

It has been suggested that loans should be subject to a means test and targeted at the needy students. (*Albrecht, D.,* and *Ziderman, A.,* 1992:360) The justification for such policy is that growing student numbers and loan-defaulters would put unsustainable pressure on the availability of loan funds. Against this view, it is arguable that where an effective repayment mechanism exists, as will be considered presently, this problem should not arise. Moreover, unless the means test is generously applied, such restriction could seriously impair access to HE if tuition fees apply.

Fifth, when should the loan be repaid? This, again, is a highly critical factor in the case for fees. In a normal bank loan (mortgage) on a house, repayment is either progressive or in total at the expiry of the loan period. For the prospective graduate, this method of repayment may be a daunting factor in the first few years after graduation and may discourage borrowing and reduce participation in HE. To overcome this difficulty, the special feature of Australian HECS for those who do not choose to pay the fees upfront, is that repayment is retrospective and income contingent[28]. It commences in stages and when the student begins to earn a certain annual income[29]. If the student's income does not reach the threshold, no repayment need to be made. Those who can show that repayment would cause 'serious hardship', may be allowed to defer

[28] The originator of this income contingent concept was Milton *Friedman* (1962:105) in a 1955 paper. It was also advocated by Alan *Prest* (1966), in his submission to the Robbins Committee, 1963. Australia was the first country to apply the concept on a national scale.

[29] In Australia, the income threshold fixed in 1989 was the figure for employee average earnings (on current values about $ 32,000), the rate of repayment rising from 3 percent of income to 5 percent at $ 44,000. The income threshold was lowered by the conservative government in 1997 to approximately the level of the national minimum wage (about $ 21,000). This has had a discouraging effect on access especially of the more mature-age group. (Andrew *Norton,* 2001:219)

repayment[30]. The importance of the income contingent concept as a counteracting factor to the deterrent effect of fees on HE enrolment, needs special emphasis.

The system of repayment of government loans to students on an income contingent basis is also applied in Sweden and the U.K.; but both in the U.K., where fees are charged, and in Sweden where HE is free, the repayment is for loans made to assist students in meeting living costs. The Australian (and New Zealand) schemes are unique in that the loans are to cover fees payable by all students regardless of means. Most of the fees are retained by the universities on the enrolment of students but are progressively repaid to the government by the students when their earnings reach a certain threshold[31]. Under the Finnish and German tuition-free HE regimes, bank guaranteed student loans are also directed at living costs[32] but repayment is on a mortgage-type basis. The same provision applies in the USA, but tuition fees apply.

Thus, two elements of the HE loans system need to be distinguished: one, the purpose of the loan, whether to cover fees or living costs; and two, the manner of repayment, whether on an income contingent basis or the standard method of mortgage repayment.

In respect of the first element, if the equity principle argued above of paying fees is accepted, it is a short logical step to extend loans to cover fees[33] as well as to contribute to living costs. The second element provides the basis for counteracting the deterrent effect of fees on HE enrolment. The time of repayment can be related to the capacity of the ex-student to pay on the basis of a threshold income at which repayment is progressively made. Thus, it may be said to provide greater equality of opportunity to access HE (*Harrison, M.,* 1995:13). In this connection, the distinction between equity at the time of enrolment and equity over the life time of the student is illuminating (*Oosterbeek,* H., 1998:22).

An alternative to an income contingent loan repayment scheme, is free HE funded by the imposition of a graduate tax on all HE students. The tax can be for life or for a limited period. Such a tax, for a period of 25 years at 3 percent per annum, is currently under discussion in the U.K. in lieu of the present tuition fee plus loan repayable on an income contingent basis. The

---

[30] It has been estimated on earlier repayment experience, that something like 96 percent of all male and 77 percent of all female HECS debt will be paid by the time the graduates reach 65 (*Chapman,* B., 1997:743).

[31] The U.K. system is rather complicated administratively in that a standard annual tuition fee of £ 1,000 is charged subject to a means test. A change in the student contribution to HE fees is under contemplation and the possibility of abolishing fees and imposing a graduate tax has been mooted.

[32] The European position on fee charging is linked to the EU policy of increasing student mobility between the EU member states. A result of this policy is that fees are an element of education policy, where equal treatment of EU citizens is obligatory. However, financial assistance to cover living costs (grants, loans, scholarships) is considered part of social policy from which students of another EU country may be excluded. Therefore, a differentiation between grants or loans to cover fees (where equal treatment is required) and grants or loans to cover living expenses is a pervasive feature of the EU.

[33] Australia has recently extended loans to cover postgraduate fees.

administrative simplicity of such an arrangement, especially compared to the present unduly complicated system, is appealing; but it falls short of equity compared to the existing scheme. A graduate tax falls on every graduate in proportion to their taxable income, regardless of the cost of their education or the benefits as measured by their incomes; and, in theory at least, it could have a deterrent effect on participation. The income contingent scheme, on the other hand, is simply a method for recovering the loan advanced to students during their period of study (*Albrecht,* D., and *Ziderman,* A., 1992:366-7; *Oosterbeek,* H., 1998:23).

Should interest be charged on loans?

On the question of whether interest should be charged on loans, one view is that it is economically inefficient to subsidise borrowers by not charging the market interest rate on student loans: it would encourage students to delay repayment as long as possible, and even those who do not need to borrow would be encouraged to do so. Further, since the majority of university students come from the higher socio-economic groups, it is inequitable to subsidise them at the expense of the taxpayer. The interest collected could be used to subsidise poorer students (*Barr,* N., 1999). A similar view is that a hidden subsidy on loans should be avoided on grounds of efficiency but that the system of repayment should be designed to avoid undue hardship on graduates (*Albrecht,* D. and *Ziderman,* A., 1992).

HECS does not accumulate a real interest charge. The outstanding loan amount is merely adjusted for changes in the CPI. Hence the real rate of interest is zero and thus a subsidy is enjoyed by borrowers. In defence of this system it is argued that those taking longer to repay the loan, are in the lower income groups and that there is equity in the re-distributive effect as between high and low income borrowers. (*Chapman,* B., 1997:741) It is ultimately a matter of social judgement on the matter of equity how these two arguments are to be balanced, but it should be noted that there is no hard evidence on Australian experience, to show that students have tended to borrow even when they are able to afford to pay upfront. The 25 percent discount for upfront payment of fees could be expected to discourage borrowing by such students.

How should loan repayments be collected?

As to how the loan repayments should be collected, since repayment is related to income, it would seem logical and efficient to designate the tax collector as the central loan collector and to make repayments simply an addition to income tax. This would avoid the large number of loan defaulters associated with bank loans[34]. It has been estimated that the administrative cost of collection is 1 percent of HECS revenue (*Chapman,* B, 1997:747). Such an arrangement is, for countries like

[34] Prior to the introduction of HECS, it was estimated that the default rate was something like 15-30 (*Chapman,* B. and *Chia,* T.1993:7) It was even higher in the USA.

Australia, an obvious course since the majority of graduates remain in the country. However, the question which is particularly important for European countries, where there is considerable international mobility of labour, is how to go about collecting the student debts from those who no longer work in the country where they entered HE.

One approach to this important question is to adopt the concept of the Nordic model referred to in the Introduction above, for equalising the contribution of each country for their intake of HE students from the other countries in the Nordic group. In the same spirit, it should be possible for the EU taxation authorities to exchange lists of outstanding student debtors, and for the authorities to credit the countries concerned with the tax collected on their behalf until the outstanding debt of each student is discharged. Given the present extent of policy co-ordination and Cupertino between EU countries on all sorts of matters, it would not seem to be unrealistic for such an arrangement to operate.

Evaluation: Is there a case for free HE?

We are now in a position to consider whether fees paid on an income contingent basis *a la* HECS for all students, regardless of SE background, may be expected to discourage access to HE.

It was noted above that the evidence from the USA and the Netherlands suggests that the elasticity of demand for HE is rather low except for those from disadvantaged SE background. The benefit of an income contingent loan repayment scheme to cover fees, could be expected to make demand even less responsive to the charging of fees, and, in the case of the lower SE groups, adequate financial assistance should offset the elasticity factor. An Australian and OECD Study (*Chapman,* B. and *Chia,* T.T., 1989; *Chapman,* B. and *Salvage,* T., 1997) found that HECS would have an insignificant effect on the private rates of return on education expenditure and, on that basis, should not deter participation much.

An examination of applications for HE immediately following the introduction of HECS, showed that the number fell by between 5 to 7 percent[35]. But other factors could have been at play. In any case, enrolment kept on rising on average by over 4 percent (*Chapman,* B., 1997:747) However, the intake of more mature students may have been affected by the 1997 changes to HECS which increased fees, introduced a differential fee system and a lower threshold income for commencement of repayment (*Andrews,* L., 1997:15).

[35] The most recent introduction of HE fees in Austria in the winter semester 2001/02 has been linked to a decline in student enrolment by some 20 percent on average. Whether this decline has simply taken off nominal student enrolment, or a measure of genuine discouragement, is not clear.

However, the persistent under-representation of low SES groups in HE participation raises the question of whether HECS, by hanging a loan over their heads, is a further deterrent to access for them.

The answer from one study (*Chapman,* B. and *Smith,* D., 1994:15) is that the surveys designed to monitor this issue suggest that HECS has a negligible impact overall, and not one that is related to poverty.

A similar conclusion was reached in another study in connection with the introduction of differential fees (*Andrews,* L., 1999:19). An attitudinal survey recorded in the same study, targeting Year 12 school-leavers from socio-economic disadvantaged groups, found that it did 'not provide compelling support for the view that HECS 'had been a decisive factor in reducing the higher education participation of these groups. It is also interesting to note that in respect of debt-aversion tendency, the SES background of groups 'had no strong or consistent effect on their level of debt aversion as measured by their willingness to apply for new mortgages or personal loans.' This suggests that, in relation to debt aversion, HECS-based loans will not deter those from low SE backgrounds any more than those from the higher SE backgrounds

Whether these Australian findings on the question of deterrence apply to other countries is a matter for investigation, although it would be surprising if the results were very different. A similar study in the Netherlands, suggests that no adverse consequences for enrolment results from switching from grants to an income contingent loans system (*Oosterbeek – Webbink,* 1998:143, and *OECD*, 1998b:71). We have no evidence that this has been done for the many countries in which HE is free. It has been put in relation to European countries that a redistributive system of financing HE 'is not an approach which has existed long enough for its possible advantages to be fully proven' (*Eurydice,* 1999:21; *European Commission,* 2000:189). Thus it cannot be assumed *prima facie* that fees of the relative size of and levied on the HECS concept, would be a significant deterrent to effective demand for HE in those countries where HE is currently free or relatively small.

Moreover, the concern expressed in the same source, that on the basis of the Nordic experience, personal contributions via loans 'in an egalitarian system' results in defaulting repayments, may well be avoided if the repayment is done through the taxation system as part of the income contingent process. The mechanism for repayment of loans must be regarded as a critical factor in the efficiency of the scheme.

In the Netherlands, there appears to be evidence that only a small minority (15 percent) are attracted to loans. Many prefer to rely on parental support and/or to work part-time, being allowed to earn annually about Fl 15,000. (The after-tax minimum wage varies between Fl 12,650 for 18 year olds to Fl 25,000 for 23 year olds). Few students reach this limit. (*Vossensteyn,* J.J., 1999:64) However, it is arguable that the low participation in loans arises for a combination of reasons – market interest rates are charged, students are reasonably well assisted by the basic grant and, for those who meet the means test, by the supplementary grant, and also by the generous allowance

for earnings from part-time employment. Further, the basis of income contingency is not as clearly defined as in Australia. Rather, it depends on the administrator of the loans, the Informatie Beheer Group, deciding the matter on a means test (*Vossensteyn,* J.J., 1999:63). Although the loan may be forgiven after 15 years from its inception, the uncertainty of the means test process may well be an additional factor in discouraging students resorting to loans[36].

The conclusion to be drawn from all the above considerations is that, in principle and leaving aside political considerations, there is a strong case for charging fees under the HECS concept on grounds of both equity and efficiency.

Equity, in that it imposes part of the cost of HE on those who may be expected to benefit from HE. This releases funds which have the potential of increasing the number of HE places and providing greater financial support to the less advantaged groups to access HE. Thus the potential for increasing social mobility is enhanced.

Efficiency, arising from charging for the use of resources, using the tax collector as the repayment mechanism thus reducing the potential of defaulting borrowers, providing greater incentive to students to graduate more quickly and inducing HE institutions to produce more effective course structures and methods of instruction.

Although the immediate call for the charging of fees has arisen from the very rapid and large increase in the demand for HE, the principle for charging fees remains strong on equity and efficiency grounds independently of the expansion of HE. This is not to say that no criticisms are called for on some of its existing features of the Australian system, for example whether the threshold for the commencement of payment is too low; whether the rate of repayment is too high; whether fee differentiation on the basis of expected incomes is appropriate; and whether the persistence of shortage of HE places, estimated at about 7 percent (Report of the Senate, 2001:272) is justified, and whether financial support for the needy students is adequate[37]. It should be clear, therefore, that the imposition of tuition fees will not of itself ensure an adequate flow of

---

[36] In the context of the lack of student participation in the voluntary loan scheme, a committee of inquiry chaired by Dr. L.M. Hermans, concluded in favour of the Australian HECS concept (*Hermans,* L.M.L.H.A., 1997:20). But it also pointed out that there was general lack of knowledge about the existing loan facility. A report commissioned by the inquiry (*Baker & McKenzie,* 1997:9.3), analysed the Australian HECS and gave it strong endorsement, including the method of collection through the tax system.

[37] There is a quota for each university of students entitled to be covered by HECS, but universities are free to take on full-paying fees students, local as well as foreign. The existence of a HECS quota suggests that public funding is inadequate to meet demand. The experience of Australia in recent years is that although HECS has eased the load of HE on the Government's budget, the Government has seen fit to reduce public funding on HE in real terms. As noted above, Australia has the fourth highest proportion of private expenditure on HE among the OECD countries after Korea, Japan and the USA. This has resulted in increased casualisation of and undue pressure on teaching staff, inadequate infra-structure, and generally a threat to the quality of HE. Further, the combination of underfunding and commercialisation of universities has resulted in a reduction in the provision of general and liberal education programmes in favour of narrow vocational ones in HE (*Report of the Senate,* 2001, :Chs. 1 and 3).

funds to HE. Some would also argue that a zero real rate of interest on the loan is economically inefficient (*Barr,* N., 1999; *Albrecht,* D., and *Ziderman,* A., 1992).

However, the weaknesses noted in the existing Australian HECS are not inherent in the HECS *concept* and do not damage the case against free HE on equity and efficiency grounds. There is no perfect system and a balance of advantages and disadvantages must be made on the basis of funding potential and competing claims. But there is a strong case for arguing that the HECS model, together with a financial assistance and supplementary loans scheme subject to means test, appears to come close to the ideal funding formula.

All this is not to say that universal HE is necessarily achievable or even desirable. A certain proportion of the population may not have the capacity or the wish for HE. Many who do not go into HE, can enjoy secure reasonable incomes and satisfying employment through other skills of a vocational and technical nature, and the prospects to do so, should be part of education policy. What is at issue here is that all should have the opportunity to develop their skills and their knowledge to their full potential.

Finally, an *OECD Report* (1998b:98), while in effect conceding the case for the payment of fees in the present circumstances, has provided an interesting and challenging justification for free HE in the future which deserves examination. It argues in effect that if HE participation grows beyond half to three-quarters or more of each generation, it would be appropriate for public expenditure to be 'the substantial base' on which tertiary education is funded. In this connection, a parallel is drawn with secondary education where 'the principle of [public] financing [of] education at this level is accepted without question'. It is fair to say that this is in effect an argument for free HE once it comes close to being universal[38].

Two points arise for consideration of this argument.

First, it is arguable that the concept of 'pooling' costs and benefits, implicit in the case being advanced for free education once it reaches a certain level, is inappropriate and inequitable. The 'pooling' concept is appropriate for health, accidents, disabilities, unemployment and such like funding because the incidence of such events cannot be predicted for individuals but can be calculated actuarially for the whole community. But for HE, although costs and benefits vary considerably between individuals (*Karmel,* T., 1999:12), they are reasonably predictable for most individuals. To allow the whole cost of HE education to fall indiscriminately on all individuals is inequitable, whether the participation rate is 75 percent or 100 percent.

Second, the parallel drawn by the OECD with secondary education, in which free education at this level is not questioned is, in theory, fair. But there are important practical differences which do not weaken the case against free HE. Secondary education does not only constitute a basic ingredient

[38] It is interesting to note that the opposite point of view has been expressed in *European Commission,* 2000:188.

of a civilised society with incalculable social benefits, it is also the gateway to tertiary education. Further, the cost per student is much smaller than that of HE[39] (*OECD,* 2000a) and a substantially larger number of students is involved in the process of collection on an income contingency basis. Moreover, school fees would have to be small enough so as not to discourage secondary education beyond the compulsory stage. Finally, in most countries, a large proportion of students in secondary public education, come from less advantaged families who would find the burden of such fees unduly heavy unless they are to be exempted from payment. These circumstances would not justify the cost of collection. All told, therefore, the analogy with secondary education fails on practical grounds.

Bibliography

ALBRECHT, D., ZIDERMAN., A, (1992) Student loans and their alternatives: improving the performance of deferred payment programs, *Higher Education,* 23, pp. 357-374.

ANDERSON, D.S., VERVOORN, A.E. (1983) *Access to Privilege: Patterns in Participation in Australian Post-Secondary Education* (Canberra, Australian National University).

ANDREWS, L. (1997) *The Effcets of HECS on Interest in Undertaking Higher Education*. (Canberra, Department of Employment, Education, Training and Youth Affairs)

ANDREWS, L. (1999) *Does HECS Deter?* (Canberra, Department of Education, Training and Youth Affairs).

BAKER & McKENZIE (1997) *Fiscale instrumenten ter verbetering van de studiefinanciering* (A Report Commissioned by the College Toekomst Studiefinanciering).

BARR, N. (1999) *Higher Education Finance: The Lessons from International Experience* (Paper for the Republic of Hungary: Higher Education Reform Project: Consulting Services for Student Loan Programme).

BIFFL, G., FERSTERER, J., ISAAC, J., LASSNIGG, L., STEINER, P., WINTER-EBNER, R. (2001a) *Kosten-Nutzen-Analyse des Bildungssystems unter besonderer Berücksichtigung der oberen Sekundarstufe* (Vienna, Research Monograph for the Ministry of Education, Science and Culture).

BIFFL, G. *et al* (2001b) *Systeme der Förderung des Universitätsstudiums im Ausland* (Vienna, Austrian Institute of Economic Research).

BLAUG, M. (1988) Review of Economics of Education: Research and Statistics, *The Journal of Human Resources*, 24(2), p. 335.

BLÖNDAL, S., GIROUARD, N. (2001) *Investment in human capital through post-compulsory education and training* (OECD Paper prepared for the Working Party Nr 1, ECO/CPE/WP1 12, Paris).

BLOSSFIELD, H.P., SHAVIT, Y. (Eds) (1993) *Persisting Inequality: Changing Educational Attainmernt in Thirteen Countries* (Oxford, Westview Press).

BORLAND, J., DAWKINS, P., JOHNSON, D., WILLIAMS, R. (2000) *Returns to higher education* (Melbourne Institute of Applied Economic and Social Research, The Melbourne Economics of Higher Education Research Program Report No. 1).

BURKE, G (1998) Expnediture on education and training: estimates by sector and course. In *Youth: reality and risk*, Dusseldorp Skills Forum, Sydney.

[39] OECD figures show that annual expenditure per student in tertiary education is twice that of secondary education in Australia, and also considerably more in other countries.

CARD, D. (1999) The Causal Effect of Education on Earnings, in: ASHENFELTER, O., CARD, D. (Eds) *Handbook of Labour Economics* (Amsterdam, Elsevier).

CHAPMAN, B. (1997) Conceptual Issues and the Australian Experience with Income Contingent Charges for Higher Education, *Economic Journal*, 107(442), pp. 738-751.

CHAPMAN, B., CHIA, T.T. (1989*) Financing Higher Education: Private rates of return and Externalities in the context of the Tertiary Tax* (Australian National University, Centre for Economic Policy Research, Discussion Paper No. 21).

CHAPMAN, B., CHIA, T.T. (1993) *Income Contingent Charges for Higher Education: Theory, Policy and Data from the Unique Australian Experiment* (Manchester, World Bank International Symposium on Economics of Education).

CHAPMAN, B., SALVAGE, T. (1997) Changes in the cost of higher education from the 1996-97 Budget, in: SHARPMAN, J., HARMON, G. *Australia's Future Universities* (University of New England Press).

CHAPMAN, B., SMITH, D. (1994) *The Higher Education Contribution Scheme After Five years* (Current Affairs Bulletin15).

ESPING-ANDERSEN, G. (1990) *The Three Worlds of Welfare Capitalism* (Cambridge, Polity Press).

EUROPEAN COMMISSION/EURYDICE (2000) *Key topics in education* (Luxemborg, Vol I.).

EUROPEAN COMMISSION/EURYDICE (1999) *Key topics in education* (Luxemborg, Vol I.).

FERSTERER, J., WINTER-EBMER, R. (1999a) Human Capital and Earnings in Austria, in: ASPLUND, R., PEREIRA, P.T. (Eds) *Returns to Human Capital in Europe: A Literature Review* (Helsinki, ETLA).

FERSTERER, J., WINTER-EBMER, R. (1999b) Are Austrian Returns to Education Falling Over time, *CEPR Working Paper*, 2313.

FERSTERER, J., WINTER-EBMER, R. (2001) Erträge der Schulbildung in Österreich unter besonderer Berücksichtigung der Sekundarstufe II, in: BIFFL *et al Kosten-Nutzen-Analyse des Bildungssystems unter besonderer Berücksichtigung der oberen Sekundarstufe* (Vienna, Research Monograph for the Ministry of Education, Science and Culture).

FRIEDMAN, M. (1962) *Capitalism and Freedom* (Chicago, University of Chicago Press).

HANSEN, E.J. (1996) *The First Generation of the Welfare State. A Cohort Analysis.* (Copenhagen, Danish National Institute of Social Research).

HARRISON, M. (1995) *Government Financing of Higher Education in Australia: Rationale and Performance* (Canberra, Department of Economics, Australian National University).

HERMANS, L.M.L.H.A. (1997) *Eindrapport van het College Toekomst Studiefinanciering, De kost gaat voor de kennis uit.*

KARMEL, T. (1999) *Financing Higher Education in Australia* (Canberra, Department of Education, Training and Youth Affairs, Occasional Paper Series).

KING, S.P. (2001) The Funding of Higher Education in Australia: Overview and Alternatives, *The Australian Economic Review*, 34(2), pp. 190-94.

LONG, M., CARPENTER, P., HAYDEN, M. (1999) Longtitudinal Surveys of Australian Youth, Participation in Education and Training 1980-1994, *Australian Council of Education Research*, Research Report No. 13.

MARKS, G.N. *et al* (2000) Patterns in Participation of Year 12 and Higher Education in Australia: Trends and Issues*, Australian Centre for Education Research*, Report No. 17.

MCPHERSON, M. and SCHAPIRO, M.O., (1991). *Keeping College Affordable, Government and Educational Opportunity,* Washington DC. The Brookings Institution.

NORTON, A. (2001) Australian Higher Education: Budgetary and Political Realities, *Australian Economic Review*, 34(2), pp. 216-221.

OECD (1998a) Education Policy Analysis (Paris).

OECD (1998b) Paying for Tertiary Education (Paris).

OECD (1998c) Thematic Review of the First years of Tertiary Education (Paris).

OECD (1998d) Human Capital Investment, An International Comparison (Paris, CERI).

OECD (1998e) Redefining Tertiary Education (Paris).

OECD (1999) Education at a Glance, OECD Indicators, Indicators of Education Systems (Paris, CERI).

OECD (2000a) Education at a Glance, OECD Indicators, Indicators of Education Systems (Paris, CERI).

OECD (2000b) The Well-Being of Nations (Paris).

OECD (2000c) Reforms of an Ageing Society (Paris).

OECD (2001) Education at a Glance, OECD Indicators, Indicators of Education Systems (Paris, CERI).

OOSTERBEEK, H. (1998) An Economic Analysis of Student Financial Aid Schemes, *European Journal of Education*, 33(1), p. 21.

OOSTERBEEK, H., WEBBINK, H.D. (1998) Enrolment in higher education in the Netherlands, *De Economist*, 143.

PREST, A. (1966) *Financing University Education* (Institute of Economic Affairs, Occasional Paper 12).

Report of the Senate Employment, Workplace Relations, Small Business and Education References Committee (2001) *Universities in Crisis* (Canberra).

ROBERTSON, D., HILLMAN, J. (1997) Widening participation in higher education from lower socio-economic groups and students with disabilities, *UK National Committee National Committee of Inquiry into Higher Education*, Report 6.

SKUJA, E. (1995) Performance of the Australian University Sector in Access and Equity, in: POSTLE, G., CLARK, J., BULL, D., BATAROWICZ, K., McCANN, H. (Eds) *Towards Excellence in Diversity: Educational Equity in the Australian Higher Education Sector in 1995: Status, Trends and Future Directions* (Toowoomba, University of Southern Queensland Press).

SMITH, A. (1776) *The Wealth of Nations* (London, Dent).

STEEL, J., SAUSMAN, C. (1997) The contribution of graduates to the economy: rates of return, *The National Committee of Inquiry into Higher Education*, Report 7.

TROW, M. (1996) Reflections on the transition from mass to universal higher education, *Daedalus,* 90(1), pp. 1-42.

U.K. (1997) *National Committee of Inquiry into Higher Education (Dearing Committee)*.

VOSSENSTEYN, J.J. (1997) Access: Selection and Affordability, *CHEPS – monitor Thematic Report III*.

VOSSENSTEYN, J.J. (1999) The Financial Situation of Students in the Netherlands, *European Journal of Education*, 34(1), p.59.

VOSSENSTEYN, J.J. (2000*) Cost sharing and understanding student choice. Developments in Western Europe and Australia* (Washington DC. , Paper presented to the Global Higher Education Exchange Conference: Paying for Higher Education: Emerging Trends, Challenges and Solutions).

WOODALL, M. (1987) A Review, in: PSACHARAPOLOUS, G. (Ed), *Economics of Education Research Studies* (Pergamon Press).

Medieninhaber (Verleger), Hersteller: Österreichisches Institut für Wirtschaftsforschung • Wien 3, Arsenal, Objekt 20 • A-1103 Wien, Postfach 91 • Tel. (43 1) 798 26 01-0 • Fax (43 1) 798 93 86 • http://www.wifo.ac.at/ • Verlags- und Herstellungsort: Wien

Verkaufspreis: ATS 100,– bzw. EUR 7,27